KEPPEL OPP'N EXH. 64

MEMORANDUM

To: K. Talbot
From: K. Corrigan, C. Taylor, K. Lowder
Subject: Ultra-Deepwater Drillship Opportunities, Brazil
Date: March 1, 2011

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Introduction & Summary

Petrobras has been moving forward with announced plans for chartering and constructing 28 ultra-deepwater drillships for long term exploration of offshore Brazilian oil and gas reserves. The fleet buildout and bidding process is being conducted in various phases with multiple contractors to construct, own and operate the vessels. Petrobras has been actively awarding long term charter contracts to facilitate the process while local and international joint ventures and consortiums have formed related to various awards to date. EIG has explored two specific opportunities in Brazil for potential investments in Fund XIV and/or Fund XIV, each of which is outlined in this memorandum along with generic asset-level returns of the underlying assets.

Generic Asset Returns Matrix

Due to the long-term contractual component of the underlying assets, risks such as construction costs, delivery timing, and operating efficiency might vary from project to project depending on the structure of each transaction. In general, asset level returns can ultimately be characterized as a function of two primary variables: dayrate and construction costs. The following matrix gives a generic set of returns for such project for a range of dayrates (vertical, thousands USD per day) and construction costs (horizontal, millions USD) with fixed parameters listed on Page 2:

Exhibit
DEF 0036
Lowder

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	600mm	650mm	700mm	750mm
350k				
Unlevered IRR	6.6%	5.3%	4.1%	3.0%
Unlevered ROI	1.5x	1.4x	1.3x	1.2x
Levered IRR	3.6%	0.0%	0.0%	0.0%
Levered ROI	1.2x	0.7x	0.5x	0.4x
10 Yr. Refi Balance	$359,772,248	$413,356,986	$466,941,724	$520,526,462
400k				
Unlevered IRR	11.3%	9.9%	8.6%	7.4%
Unlevered ROI	2.0x	1.8x	1.7x	1.6x
Levered IRR	19.4%	15.5%	11.5%	7.0%
Levered ROI	3.3x	2.6x	2.1x	1.6x
10 Yr. Refi Balance	$277,510,214	$331,094,953	$384,679,691	$438,264,429
450k				
Unlevered IRR	15.3%	13.7%	12.3%	11.1%
Unlevered ROI	2.5x	2.3x	2.1x	2.0x
Levered IRR	28.3%	25.0%	21.8%	18.7%
Levered ROI	5.4x	4.5x	3.8x	3.2x
10 Yr. Refi Balance	$195,248,181	$248,832,919	$302,417,657	$356,002,396
500k				
Unlevered IRR	18.8%	17.2%	15.7%	14.3%
Unlevered ROI	2.9x	2.7x	2.5x	2.4x
Levered IRR	35.0%	31.9%	28.9%	26.1%
Levered ROI	7.4x	6.4x	5.6x	4.8x
10 Yr. Refi Balance	$112,986,147	$166,570,886	$220,155,624	$273,740,362
550k				
Unlevered IRR	22.0%	20.3%	18.7%	17.2%
Unlevered ROI	3.4x	3.1x	2.9x	2.7x
Levered IRR	40.6%	37.5%	34.6%	31.9%
Levered ROI	9.5x	8.3x	7.3x	6.5x
10 Yr. Refi Balance	$30,724,114	$84,308,852	$137,893,590	$191,478,329

Return Matrix Parameters

- Dayrates in USD, comprised partially of BRL denominated service rate
- Construction costs in USD, assumes 21 month schedule with 5 key milestone payment dates
- Unlevered returns based on project cash flows and do not assume any special tax provisions
- Levered returns assume 75% debt funds pro-rata construction costs at L+382bps (7.5% yield)
- 10 Year Refi Balance: amount of debt remaining after initial 10 year contract subject to 50% cash sweep
- 8x EBITDA sales multiple applied to achieve terminal value
- Revenues get no inflation benefit; Expenses subject to 2.5% CPI (USD) and 5.25% IPCA (BRL)

Based on awards to date, Petrobras has tended to charter the vessels for below market dayrates in exchange for longer than market duration of contracts. For example where global market dayrates for such drillships might be on the order of $500,000 per day, EIG has seen Petrobras awarding contracts closer to $400,000 per day. Similarly, where global market terms might be three to five years on average, Petrobras has awarded contracts up to ten years. It is this general set of contracting dynamics that EIG views as an opportunity to invest in a structured transaction with long term ROI potential, a high credit quality contractual counterparty, and underlying exposure to the premier deepwater offshore reserves of Brazil, whereas otherwise there might not be an opportunity to invest directly.

Opportunity I: Redacted – ICSI

Redacted – ICSI

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Redacted – ICSI

Opportunity II: Sete Brazil

Petrobrás is establishing a holding company in Brazil, Sete Brasil Participações S.A. (which in turn will own Sete International GmbH, in Vienna, Austria) to provide the equity investments necessary to capitalize seven SPV's to build, own and operate ultra deep water drill ships to be constructed for the first time in Brazil by a locally-owned shipyard, expected to be *Estaleiro Atlantico Sul ("EAS").* EAS is a joint venture located in the Northeastern state of Pernambuco, among Camargo Corrêa, Queiroz Galvão, and Samsung Heavy Industries, with 10% participation. Camargo and Queiroz Galvão are two of the largest and most respected construction and engineering groups in Brazil, and Samsung has extensive experience in building ultra deep water drill ships for the Brazilian oil industry, up to this point at their own facilities in South Korea.

The initial capitalization of Sete Brasil is R$2 billion (approximately $1.2 billion), and at this point Banco Santander, in their capacity as financial advisor to Petrobrás, has commitments in various stages of approval from the four largest pension funds in Brazil (Petros – Petrobrás; Funcef – Caixa Economica Federal; Previ – Banco do Brasil; and Valia – Vale) and the largest foreign and private domestic banks, Santander and Bradesco, respectively. EIG has an opportunity to join this select group of investors as probably the only foreign investor, which could be done at the Austrian GmbH level in US dollars. The investment vehicle will be through a private equity fund regulated by the Brazilian Securities and Exchange Commission ("CVM"). It is expected that Sete Brasil will undertake an IPO during its first years of existence, which according to Banco Santander, could provide an IRR of 30% to the initial investors, who are acquiring their quotas at par.

The Investment Fund ("FIP") will team up with Petrobrás to capitalize Sete Brasil, which in turn will own 100% of Sete International. Sete International will invest in each of seven SPVs, such that their ownership will represent 85% of the equity of each SPV. Petrobrás intends to invest the remaining 15% of equity directly into the first two SPV's, while it is hoped that future SPV's will attract "strategic investors," i.e. operators, for the balance of the equity. Each SPV will own one ultra deep water drill ship valued at $664 million (under turn-key, fixed-price, date-certain contracts), for a total investment for the first seven drill ships on the order of $4.9 billion. Each SPV will, in turn, be capitalized on the basis of 20-25% equity, and 70-75% senior secured debt. Providers of senior debt are expected to be a combination of BNDES, Brazil's state-owned development bank, ECA's of countries where rig components are purchased, commercial banks, and capital markets, if appropriate.

Sete Brasil will retain the right to develop and build additional 7-rig systems under similar conditions, and Petrobrás undertakes not to create a competing structure for two years, or until 28 rigs have been contracted under this structure.

A number of contracts are in various stages of drafting, below are some of the primary terms to expect, generally:

- **Guarantee Fund for Naval Construction ("FGCN")** A R$4 billion fund established by the Federal Government to cover debt service in the event of delays and/or cost overruns by the shipbuilder. There is no sovereign guarantee, though initial funding is from the Treasury. It is managed by the Caixa Economica Federal (same entity that manages the FIP investment vehicle) and covers up to 50% of the debt outstanding on each SPV. No more than 25% of FGCS's assets can be allocated to any one deal.

- **Shareholders Agreement (between the FIP -90%, and Petrobrás – 10%)** The main provisions deal with governance, the Board of Directors will be comprised of nine individuals, as follows:
  - The President, who is chosen by the FIP holders from a list of three names provided by Petrobrás

  - The Vice-President
  - One Director appointed by Petrobrás, and
  - Six directors appointed by FIP holders. As there are, in principle, six initial investors in the FIP, as noted above, we would want to ensure that EIG would be entitled to one seat on the Board.

- **Quota holders' Agreement among FIP holders**
  - Seven directors, Caixa Economica Federal plus six investor representatives. There is a seven-year lock-up in the FIP, except among existing quota-holders. Otherwise, only with the approval of Petrobrás. Petrobrás itself has a ten-year lock-up in Sete Brasil, and a two-year non-compete with the existing structure.

- **Quota holders' Agreement between Caixa Economica Federal and each investor**
  - Investment Period: 10 years (10 years to divest)
  - Petrobrás has right of veto over all Quota holders if (i) Petrobrás believes the investor is not capable of investing in the FIP (ii) the investor is in litigation with Petrobrás, (iii) the investor competes directly with Petrobrás, or (iv) the investor is a drillship operator

- **Investment Agreement between Petrobrás and Sete Brasil**
  - SPV's will be 85% owned by Sete International (Austria), 15% by Petrobrás Netherlands V.V. for first two SPV's
  - Remaining 5 SPV's can be underwritten by Petrobrás, or sold, now or later, to "strategic partners," i.e. Operators. Twenty-one Operators have been pre-qualified, and include Odebrecht and Queiroz Galvão.
  - Part of subscription can be through subordinated debt, which would be used by Sete Brasil to increase the capital of Sete International or by Sete International to increase the capital of the SPV's. Sub-debt would take the form of simple non-convertible debentures.
  - During the first year of operations, a "Performance Fund" of $56 million will be established and funded from SPV dividends to complement any shortfalls in senior debt service resulting from operator performance risk.
  - During years 8-10 of operations a "Renewal Fund" of $117 million will be established and funded from SPV dividends to ensure repayment of the Sr. Debt balloon.

Timing and next steps for EIG:

At this point "soft circles" have been obtained from the previously identified pension funds and investment banks. All of them are in various stages of committee approval, and draft documentation is being reviewed and negotiated. Petrobrás is keen to close by April/May, as they have an ambitious E&P schedule, and need to provide NTP to EAS so that the first seven locally-built drill ships can be delivered in 2015 (the first two), 2016 (1), 2017 (2), 2018 (1), and 2019 (1). We would need to provide a strong expression of interest and obtain Petrobrás' concurrence to our entry.